SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003 .

COMMISSION FILE NUMBER: 0-23336

ELECTRIC FUEL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	95-4302784
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

632 BROADWAY, SUITE 1200, NEW YORK, NEW YORK	10012
(Address of principal executive offices)	(Zip Code)

(646) 654-2107

(Registrant's telephone number, including area code)

632 BROADWAY, SUITE 301, NEW YORK, NEW YORK 10012

(Former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's common stock as of May 10, 2003 was 35,146,261.

ELECTRIC FUEL CORPORATION

INDEX

PART I - FINANCIAL INFORMATION

<TABLE>
<CAPTION>
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ELECTRIC FUEL CORPORATION

Item 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED BALANCE SHEETS (U.S. Dollars)

ASSETS	MARCH 31, 2003 (Unaudited)	DECEMBER 31, 2002* (Audited)
Current Assets:		
Cash and cash equivalents	$ 1,862,280	$ 1,457,526
Certificates of deposit due within one year	634,101	633,339
Trade receivables, net of allowance for doubtful accounts in the amount of $42,886 and $40,636 as of March 31, 2003 and December 31, 2002, respectively	5,373,289	3,776,195
Other receivables	1,466,166	1,032,311
Inventories	1,639,935	1,711,479
Assets of discontinued operations	28,357	349,774
TOTAL CURRENT ASSETS	11,004,128	8,960,624
Severance pay fund	930,253	1,025,071
PROPERTY AND EQUIPMENT, NET	2,415,082	2,555,249
GOODWILL	4,970,510	4,954,981
OTHER INTANGIBLE Assets, NET	2,255,686	2,567,457
	$21,575,659	$20,063,382

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION

CONSOLIDATED BALANCE SHEETS (U.S. Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	MARCH 31, 2003 (Unaudited)	DECEMBER 31, 2002* (Audited)
CURRENT LIABILITIES:		
Trade payables	$ 3,308,566	$ 2,900,117
Other accounts payable and accrued expenses	1,887,114	2,009,109
Current portion of promissory note due to purchase of a subsidiary	450,000	1,200,000

Short term loans	115,721	108,659
Liabilities of discontinued operations	741,662	1,053,799
Total current liabilities	6,503,063	7,271,684
LONG TERM LIABILITIES		
Accrued severance pay	2,943,631	2,994,233
Convertible debenture	1,799,000	--
Promissory note due to purchase of a subsidiary	482,332	516,793
Total long-term liabilities	5,224,963	3,511,026
MINORITY RIGHTS	286,399	243,172
SHAREHOLDERS' EQUITY:		
Share capital -		
Common stock - $0.01 par value each; Authorized: 100,000,000 shares as of March 31, 2003 and December 31, 2002; Issued: 35,314,293 shares as of March 31, 2003 and December 31, 2002; Outstanding - 35,146,261 shares as of March 31, 2003 and December 31, 2002	357,017	357,017
Preferred shares - $0.01 par value each; Authorized: 1,000,000 shares as of March 31, 2003 and December 31, 2002; No shares issued and outstanding as of March 31, 2003 and December 31, 2002	--	--
Additional paid-in capital	115,976,670	114,082,584
Deferred stock compensation	(12,000)	(12,000)
Accumulated deficit	(102,060,702)	(100,673,619)
Treasury stock, at cost (common stock - 555,333 shares as of March 31, 2003 and December 31, 2002)	(3,537,106)	(3,537,106)
Notes receivable from shareholders	(1,181,675)	(1,177,589)
Accumulated other comprehensive loss	19,029	(1,786)
TOTAL SHAREHOLDERS' EQUITY	9,561,233	9,037,501
	$ 21,575,658	$ 20,063,382

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (U.S. Dollars)

<TABLE>
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	THREE MONTHS ENDED MARCH 31, 2003	2002
Revenues	$ 4,033,453	$ 570,545
Cost of revenues	2,633,719	383,628

Gross profit	1,399,734	186,917
Research and development	358,039	100,500
Selling and marketing expenses	703,987	56,940
General and administrative expenses	1,012,756	1,248,451
Amortization of intangible assets and in-process	311,771	--
	2,386,552	1,405,892
Operating loss	(986,818)	(1,218,975)
Financial (expenses) income, net	(261,075)	64,163
Loss before minority interest in profit of a subsidiary	(1,247,893)	(1,154,811)
Minority interest in profit of a subsidiary	(43,228)	--
Net loss from continuing operations	(1,291,121)	(1,154,811)
Net loss from discontinued operations	(95,962)	(2,159,398)
Net loss for the period	$ (1,387,083)	$ (3,314,209)
Basic and diluted net loss per share from continuing operations	$ (0.04)	$ (0.04)
Basic and diluted net loss per share from discontinued operations	$ (0.00)	$ (0.07)
Combined basic and diluted net loss per share	$ (0.04)	$ (0.11)
Weighted average number of shares used in computing basic and diluted net loss per share	34,758,960	30,149,210

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (U.S. DOLLARS)

<TABLE>
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	COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED STOCK	ACCUMULATED
	SHARES	AMOUNT	CAPITAL	COMPENSATION	DEFICIT
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 2003 - AUDITED	35,314,293	$ 357,017	$ 114,082,584	$ (12,000)	$(100,673,619)
CHANGES DURING THE THREE-MONTH PERIOD ENDED MARCH 31, 2003					
Compensation related to beneficial conversion feature of convertible debentures			1,290,000		
Compensation related to issuance of warrants to holders of convertible debenture			600,000		
Interest accrued on notes receivable from shareholders			4,086		
Loss					(1,387,083)
BALANCE AT MARCH 31, 2003 UNAUDITED	35,314,293	$ 357,017	$ 115,976,670	$ (12,000)	$(102,060,702)

</TABLE>

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<S>	TREASURY STOCK <C>	NOTES RECEIVABLE FROM SHAREHOLDERS <C>	ADJUSTMENTS DUE TO CHANGES IN EXCHANGE RATES <C>	TOTAL <C>
BALANCE AT JANUARY 1, 2003 - AUDITED	$ (3,537,106)	$ (1,177,589)	$ (1,786)	$ 9,037,501
CHANGES DURING THE THREE-MONTH PERIOD ENDED MARCH 31, 2003				
Compensation related to beneficial conversion feature of convertible debentures				
Compensation related to issuance of warrants to .... holders of convertible debenture				$ 1,290,000
Interest accrued on notes receivable from shareholders				$ 600,000
Loss.........................		(4,086)		--
			20,815	$ (1,366,268)
BALANCE AT MARCH 31, 2003 UNAUDITED	$ (3,537,106)	$ (1,181,675)	$ 19,029	$ 9,561,233

</TABLE>

ELECTRIC FUEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (U.S. DOLLARS)

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED MARCH 31, 2003 <C>	2002 <C>
Cash flows from operating activities:		
Net loss for the period	(1,387,083)	(3,314,209)
Net loss for the period from discontinued operations	95,962	2,159,398
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation	180,591	139,500
Amortization of intangible assets	311,771	--
Amortization of deferred financial expenses	78,750	--
Amortization of compensation related to warrants issued to the holders of convertible debentures	189,000	--
Stock-based compensation due to shares granted to suppliers	--	185,450
Profit to minority	43,227	--
Write-off of inventory	20,000	--
Impairment of fixed assets	62,332	--
Interest income accrued on promissory notes due to purchase of subsidiary	(34,461)	--
Interest accrued on certificates of deposit due within one year	(762)	

		--
Capital gain from sale of property and equipment	(1,576)	(4,257)
Write-off of notes receivable from stockholders	--	255,275
Accrued severance pay, net	44,216	111,135
Changes in operating asset and liability items:		
Decrease (increase) in trade receivables	(1,597,094)	(46,834)
Decrease (increase) in accounts receivable	(422,262)	3,955
(Increase) decrease in inventories	51,544	12,359
Increase (decrease) in trade payables	408,449	(323,420)
Increase (decrease) in accounts payable and accruals	(120,060)	(85,149)
	-----------	-----------
NET CASH USED IN OPERATING ACTIVITIES FROM CONTINUING OPERATIONS	(2,077,456)	(906,797)
(RECONCILED FROM CONTINUING OPERATIONS)		
NET CASH USED IN OPERATING ACTIVITIES FROM DISCONTINUED OPERATIONS (RECONCILED FROM DISCONTINUED OPERATIONS)	(171,737)	(1,889,831)
	-----------	-----------
Net cash used in operating activities	(2,249,193)	(2,796,628)
	-----------	-----------
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of promissory note related to purchase of subsidiary	(750,000)	--
Purchase of fixed assets	(138,622)	(121,249)
Loans granted to stockholders	--	(4,528)
Proceeds from sale of property and equipment	5,402	4,257
Decrease in demo inventories, net	32,040	--
Net cash used in discontinued operations	--	(195,310)
	-----------	-----------
NET CASH USED IN INVESTING ACTIVITIES	(851,180)	(316,830)
	-----------	-----------
FORWARD	$(3,100,373)	(3,113,458)
	-----------	-----------

</TABLE>

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The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (U.S. DOLLARS)

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<TABLE>
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	THREE MONTHS ENDED MARCH 31,	
	2003	2002
	------------	------------
<S>	<C>	<C>
FORWARD	$ (3,100,373)	$(3,113,458)
	------------	------------
Cash flows from financing activities:		
Increase in short-term credit from banks	7,062	--
Proceeds from issuance of share capital, net	--	

		3,230,000
Proceeds from exercise of options and warrants	--	21,450
Payment of interest and principal on notes receivable from shareholders	--	43,308
Payment on capital lease obligation	(1,935)	--
Issuance of convertible debenture	3,500,000	--
Net cash provided by financing activities	3,505,127	3,294,758
DECREASE IN CASH AND CASH EQUIVALENTS	404,754	181,300
BALANCE OF CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,457,526	12,671,754
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 1,862,280	$ 12,853,054
SUPPLEMENTARY INFORMATION ON NON-CASH TRANSACTIONS:		
Issuance of share capital (including additional paid-in capital) in respect of notes receivable from stockholders	$ --	$ 144,875
Exercise of options and warrants against notes receivable	$ --	$ 79,845
Compensation related to issuance of warrants in connection with convertible debenture and beneficial conversion feature of convertible debentures	$ 1,890,000	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION - CASH (PAID) RECEIVED DURING THE PERIOD FOR:		
Interest	$ (7,384)	$ 73,492

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

GENERAL

The interim consolidated financial statements of Electric Fuel Corporation reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of our management, necessary for a fair statement of results for the periods presented. Operating revenues and expenses for any interim period are not necessarily indicative of results for a full year.

For the purpose of these interim consolidated financial statements, certain information and disclosures normally included in financial statements have been condensed or omitted. These unaudited statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2002.

NOTE 1: BASIS OF PRESENTATION

a. Company:

Electric Fuel Corporation ("EFC," "Electric Fuel," or the "Company") and its subsidiaries are engaged in the design, development and commercialization of its proprietary zinc-air battery technology for defense and security products, military applications and electric vehicles. The Company is primarily operating through Electric Fuel Ltd. ("EFL") a wholly-owned subsidiary based in Beit Shemesh, Israel, through IES Interactive Training Systems, Inc., a wholly-owned subsidiary based in Littleton, Colorado, and through M.D.T. Protective Industries, Ltd., a majority-owned subsidiary based in Lod, Israel. The Company's production is primarily located in Auburn, Alabama, and its research and development are primarily located in Israel.

b. Accounting:

The accompanying condensed interim consolidated financial statements have been prepared by Electric-Fuel Corporation in accordance with generally accepted accounting principles in the United States pursuant to the rules and regulations of the Securities and Exchange Commission, and include the accounts of Electric-Fuel Corporation and its subsidiaries collectively. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial position at March 31, 2003 and the operating results and cash flows for the three months ended March 31, 2003 and 2002. These financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto, included in the Company's annual report on Form 10-K, as amended, filed with the Securities and Exchange Commission.

The results of operations for the three months ended March 31, 2003 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending December 31, 2003.

c. Accounting for stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") and Interpretation No. 44 "Accounting for Cer-

tain Transactions Involving Stock Compensation" ("FIN No. 44") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized. Under Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), pro-forma information regarding net income and income per share is required, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123.

The Company applies SFAS No. 123 and Emerging Issue Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18") with respect to options issued to non-employees. SFAS No. 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

The fair value for the options to employees was estimated at the date of grant, using the Black-Scholes Option Valuation Model, with the following weighted-average assumptions: risk-free interest rates of 3.5%, 3.5-4.5%, and 6.5% for 2002, 2001 and 2000, respectively; a dividend yield of 0.0% for each of those years; a volatility factor of the expected market price of the Common Stock of 0.64 for 2002, 0.82 for 2001 and 0.95% for 2000; and a weighted-average expected life of the option of 10 years for 2002, 2001 and 2000.

The following table illustrates the effect on net income and earnings per share, assuming that the Company had applied the fair value recognition provision of SFAS No. 123 on its stock-based employee compensation:

	THREE MONTHS ENDED MARCH 31, 2003	2002
Net loss as reported	$ (1,387,083)	$(3,314,209)
Add: Stock-based compensation expenses included in reported net loss	(551,397)	(637,561)
Pro forma net loss	$ (1,938,480)	$(3,951,770)
Loss per share:		
Basic and diluted, as reported	$ (0.04)	$ (0.11)
Diluted, pro form	$ (0.06)	$ (0.13)

NOTE 2: INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using the average cost method. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on these evaluations, provisions are made in each period to write down inventory to its net realizable value. Inventories are composed of the following:

	MARCH 31, 2003	DECEMBER 31, 2002
	(Unaudited)	(Audited)
Raw materials	$ 943,314	$ 893,666
Work-in-progress	249,126	296,692
Finished goods	447,495	521,121
	$1,639,935	$1,711,479

Inventory is presented net of inventory for retail sales pf consumer battery products, which is presented in Assets of Discontinued Operations. In the third quarter of 2002 the Company wrote off inventory for retail sales of consumer battery products in the amount of $2.45 million due to discontinuation of this segment.

NOTE 3: IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" which addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is effective for all exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 does not have a material impact on the Company's results of operations or financial position.

In November 2002, the EITF published Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," or EITF Issue No. 00-21, which addresses how to determine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for the purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 applies to all revenue arrangements that we enter into after June 30, 2003. The Company does not expect the adoption of EITF Issue No. 00-21 to have a material impact on our financial condition or results of operations.

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No., or FIN, 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin, or ARB, No. 51." FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risk will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. FIN 46 also requires enhanced disclosure requirements related to variable interest entities. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

NOTE 4: SEGMENTS INFORMATION

a. General:

The Company and its subsidiaries operate primarily in two business segments and follow the requirements of SFAS No. 131.

The Company previously managed its business in three reportable segments organized on the basis of differences in its related products and services. With the discontinuance of Consumer Batteries segment and acquiring two subsidiaries during 2002, two reportable segments remain:

Electric Fuel Batteries, and Defense and Security Products. As a result the Company reclassified information previously reported in order to comply with new segment reporting.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based upon two primary factors, one is the segment's operating income and the other is based on the segment's contribution to the Company's future strategic growth.

b. The following is information about reported segment gains, losses and assets for the three months ended March 31, 2003 and 2002:

<TABLE>
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THREE MONTHS ENDED MARCH 31,	ELECTRIC FUEL BATTERIES	DEFENSE AND SAFETY PRODUCTS	TOTAL
		U.S. DOLLARS	
2003:			
Revenues from outside customers	$ 828,645	$ 3,204,808	$ 4,033,453
2002:			
Revenues from outside customers	$ 570,545	$ -	$ 570,545

c. Revenues from major customers:

</TABLE>

<TABLE>
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	2003	2002
	%	
Electric Fuel Batteries:		
Customer A	14%	39%
Customer B	1%	35%
Defense and Safety Products:		
Customer C	24%	-
Customer D	28%	-

</TABLE>

NOTE 5: CONVERTIBLE DEBENTURES

Pursuant to the terms of a Securities Purchase Agreement (the "SPA") dated December 31, 2002, the Company issued and sold to a group of institutional investors 9% secured convertible debentures due June 30, 2005 ("Debentures") in an aggregate principal amount of $3.5 million. The Debentures were convertible at any time prior to June 30, 2005 at a conversion price of $0.75 per share. In April 2003, this conversion price was amended to $0.64 per share, and the Debentures are hence now convertible into a maximum of 5,468,750 shares of common stock.

As part of the SPA , the Company issued to the purchasers of its Debentures an aggregate of 3,500,100 warrants, exercisable at prices ranging from $0.84 to $0.93. In April 2003, the Company amended the warrants to adjust their exercise prices to $0.64.

In determining whether the Debentures include a beneficial conversion option in accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Continently Adjustable Conversion Ratios," and EITF 00-27, the total proceeds were allocated to the Debentures and the detachable warrants based on their related fair values. The fair value of these

warrants was determined using Black-Scholes pricing model, assuming a risk-free interest rate of 3.5%, a volatility factor 64%, dividend yields of 0% and a contractual life of five years.

In connection with these Debentures, the Company will record financial expenses of approximately $600,000 and in connection with the warrants, the Company will record financial expenses of approximately $1,290,000. The total of $1,890,000 will be amortized ratably over the life of the Debentures until June 30, 2005.

The Debentures are presented in the balance sheet as follows:

<TABLE>

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	MARCH 31,2003
	Unaudited
<S>	<C>
Principle amount...	$ 3,500,000
Compensation related to issuance of warrants and debenture......	(1,890,000)
Financial expenses related to amortization of compensation......	189,000
Total debentures, net...	$ 1,799,000

</TABLE>

Note 6: CONTINGENCIES

The Company has received a letter from the Israel Investment Center alleging, without any specifics, that the Company has not abided by the terms of certain of the Company's grants from them. The Company believes that it has fully complied with all the terms of its grants, and it has set an appointment with the Israel Investment Center to discuss the contents of their letter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve inherent risks and uncertainties. When used in this discussion, the words "believes," "anticipated," "expects," "estimates" and similar expressions are intended to identify such forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth elsewhere in this report. Please see "Risk Factors," below, and in our other filings with the Securities and Exchange Commission.

Electric Fuel(R) is a registered trademark of Electric Fuel Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders. Unless otherwise indicated, "we," "us," "our" and similar terms refer to Electric Fuel and its subsidiaries.

The following discussion and analysis should be read in conjunction with the interim financial statements and notes thereto appearing elsewhere in this Quarterly Report. We have rounded amounts reported here to the nearest thousand, unless such amounts are more than 1.0 million, in which event we have rounded such amounts to the nearest hundred thousand.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for bad debts, and impairment of intangible assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition and Bad Debt

We generate revenues primarily from sales of multimedia and interactive digital training systems and use-of-force simulators specifically targeted for law enforcement and firearms training and from service contracts related to such sales, from providing lightweight armoring services of vehicles, and, to a lesser extent, from sale of zinc-air battery products for defense applications and from development services and long-term arrangements subcontracted by the U.S government. We recognize revenues in respect of products when, among other things, we have delivered the goods being purchased and we believe collectibility to be reasonably assured. We do not grant a right of return to our customers. We perform ongoing credit evaluations of our customers' financial condition and we require collateral as deemed necessary. An allowance for doubtful accounts is determined with respect to those accounts that we have determined to be doubtful of collection. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required, and this might cause a revision of recognized revenues.

Revenues from development services are recognized using contract accounting on a percentage of completion method, based on completion of agreed-upon milestones and in accordance with the "Output Method" or based on the time and material basis. Provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined.

INVENTORIES

We state our inventories at the lower of cost or market value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence. Our reserves for excess and obsolete inventory are primarily based upon forecasted demand for our products, and any change to the reserves arising from forecast revisions would be reflected in cost of sales in the period the revision is made.

GOODWILL

Goodwill represents the excess of cost over the fair value of the net assets of businesses acquired.

As required by applicable accounting rules, we test goodwill for impairment at least annually and between annual tests in certain circumstances, and we write down goodwill when impaired, rather than amortizing it as previous accounting standards required. Goodwill is tested for impairment by comparing the fair value with its carrying value. Fair value is determined using discounted cash flows, market multiples and market capitalization. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for the reportable units.

The determination of the value of goodwill requires management to make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we could be required to record impairment charges. Any material change in our valuation of assets in the future and any consequent adjustment for impairment could have a material adverse impact on our future reported financial results.

As a result of MDT and IES acquisitions, we recorded goodwill in the amount of $5.0 million as of March 31, 2003.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

Long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the carrying amount of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. As of March 31, 2003, no impairment losses have been identified.

The determination of the value of such long-lived and intangible assets requires management to make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we could be required to record impairment charges. Any material change in our valuation of assets in the future and any consequent adjustment for impairment could have a material adverse impact on our future reported financial results.

As a result of MDT and IES acquisitions, we recorded intangible assets in the amount of $2.3 million as of March 31, 2003.

BUSINESS COMBINATIONS

We have accounted for the combination with IES and MDT utilizing the purchase method of accounting. The combination required management to estimate the fair value of the assets acquired and liabilities assumed. These estimates have been based on our business plans for the entity acquired. Should the actual use of assets or resolution of obligations differ from our estimates, revisions to the estimated fair values would be required. If a change in estimate occurs after one year following the acquisition, the change would be recorded in our statement of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is effective for all exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS No. 146 to have a material impact on our results of operations or financial position.

In November 2002, the EITF published Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," or EITF Issue No. 00-21, which addresses how to deter-

mine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for the purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 applies to all revenue arrangements that we enter into after June 30, 2003. The Company does not expect the adoption of EITF Issue No. 00-21 to have a material impact on our financial condition or results of operations.

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No., or FIN, 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin, or ARB, No. 51." FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risk will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. FIN 46 also requires enhanced disclosure requirements related to variable interest entities. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

RECENT DEVELOPMENTS

CECOM ORDER

In April 2003, we announced that we had received an additional $1.6 million order from CECOM for a delivery order of advanced Zinc-Air batteries, with deliveries anticipated to take placed from September through November 2003.

GENERAL

During the first quarter of 2003, we continued the process of integrating our two new subsidiaries, IES and MDT, and we continued our focus on increasing our activities in the defense and security sectors, following the expansion of our battery development and procurement contracts with the US Army's Communications Electronics Command (CECOM) and other defense-related agencies. We also concentrated intensive efforts on various cost-cutting strategies, including downsizing staff in areas showing lower productivity.

Our line of existing battery products for the military and defense sectors includes 12/24V, 30/60Ah Advanced Zinc-Air Power Packs (AZAPPs) utilizing our most advanced cells (which have specific energy of 400 Wh/kg), a line of super-lightweight AZAPPs that feature the same 400 Wh/kg cell technology in new 16Ah cells, and our new, high-power 12V Zinc-Air Power Packs (ZAPPs), which offer extended-use 12V portable power and current ratings up to 3.5A, using our commercial Zinc-Air cell technology.

Our Electric Fuel Batteries Division is continuing with the production of Zinc-Air fuel cell packs for the U.S. Army's Communications Electronics Command (CECOM). The 12/24 volt, 800 watt-hour battery pack for battlefield power, which is based on our Zinc-Air fuel cell technology, is approximately the size and weight of a notebook computer. The battery is based on

a new generation of lightweight, 30 ampere-hours cells developed by us for both military and future commercial products with high energy requirements.

In December 2002, we entered into a contract with the US Army Communications Electronic Command (CECOM) pursuant to 10 U.S.C. ss. 2304c(2), "Unusual and Compelling Urgency," for a delivery order of advanced Zinc-Air batteries.

The contract calls for order releases during the first three calendar quarters of 2003, with a current order ceiling of $2,543,250.

Under the terms of the contract, we will produce and supply the BA-8180/U Zinc-Air Nonrechargeable Battery. BA-8180/U is the new Army designation for Electric Fuel's Model FC Advanced Zinc-Air Power Pack, as it was previously known during its development phase. In addition, we will supply three types of electrical interface adapters for the BA-8180/U, including equipment-specific adapters for the AN/PRC-119 SINCGARS and SINCGARS ASIP tactical radio sets, and a generic interface for items of equipment that were designed to interface with a BA-5590 or equivalent battery. Each of the three interfaces was also assigned a national stock number (NSN) by CECOM. The BA-8180/U was assigned an NSN in August 2002.

The BA-8180/U is a 12/24 volt, 800 watt-hour battery pack approximately the size and weight of a notebook computer. The battery is based on a new generation of lightweight, 30 ampere-hours cells that we developed over the last five years with partial funding by CECOM. In extensive field testing, the BA-8180/U battery typically provided 4 to 6 times the run time of a BA-5590, a primary lithium battery pack widely used in the military.

Additionally, the Electric Fuel Batteries Division is continuing with the introduction of the new emergency lights for the marine life jackets market.

Our Electric Fuel Batteries Division is also continuing its American all-electric transit bus demonstration project, subcontracted by the Federal Transit Administration (FTA). We successfully completed Phase I in June 2000 and Phase II of the FTA program in July 2002, and have recently received approval of subcontracting fees from the FTA to begin Phase III of the program, which will focus on an evaluation of the performance of Zinc-Air battery propulsion systems for transit buses; the installation of new advanced ultra capacitors; and the implementation of an advanced control system for auxiliaries.

During the first quarter of 2003, we continued to invest in strengthening our intellectual property position. We have 42 unexpired U.S. patents and 15 corresponding European patents issued covering general aspects and various applications of our Zinc-Air technology; these patents expire between 2007 and 2018.

We have experienced significant fluctuations in the sources and amounts of our revenues and expenses, and we believe that the following comparisons of results of operations for the periods presented do not necessarily provide a meaningful indication of our development. Our research and development expenses have been offset, to a limited extent, by the periodic receipt of research grants from Israel's Office of the Chief Scientist. We expect that, because of these and

other factors, including our acquisitions of IES and MDT, our discontinuation of certain of our operations, and general economic conditions and delays due to legislation and regulatory and other processes and the development of competing technologies, future results of operations may not necessarily be meaningfully compared with those of current and prior periods. Thus, we believe that period-to-period comparisons of its past results of operations should not necessarily be relied upon as indications of future performance.

We have received a letter from the Israel Investment Center alleging, without any specifics, that we have not abided by the terms of certain of our grants from them. We believe that we have fully complied with all the terms of our grants, and we have set an appointment with the Israel Investment Center to discuss the contents of their letter.

We incurred significant operating losses for the years ended December 31, 2000, 2001 and 2002 and the first three months of 2003. While we expect to continue to derive revenues from the sale of defense and security products that we manufacture (directly and through our subsidiaries) and from components of the Electric Fuel Electric Vehicle System, there can be no assurance that we will ever derive such revenues or achieve profitability.

FUNCTIONAL CURRENCY

We consider the United States dollar to be the currency of the primary economic environment in which we and our Israeli subsidiary Electric Fuel (E.F.L) Ltd. ("EFL") operate and, therefore, both we and EFL have adopted and are using the United States dollar as our functional currency. Transactions and balances originally denominated in U.S. dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

The majority of financial transactions of MDT is in New Israel Shekels ("NIS") and a substantial portion of MDT's costs is incurred in NIS. Management believes that the NIS is the functional currency of MDT. Accordingly, the financial statements of MDT have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts has been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive loss in shareholders' equity.

RESULTS OF OPERATIONS

PRELIMINARY NOTE

Results for the three months ended March 31, 2003 include the results of IES and MDT for such period as a result of our acquisitions of these companies early in the third quarter of 2002. The results of IES and MDT were not included in our operating results for the three months ended March 31, 2002. Accordingly, the following period-to-period comparisons should not necessarily be relied upon as indications of future performance.

In addition, results are net of the operations of the retail consumer battery products, which operations were discontinued in the third quarter of 2002.

THREE MONTHS ENDED MARCH 31, 2003, COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2002.

REVENUES. Revenues from continuing operations for the three months ended March 31, 2003 totaled $4.0 million, compared to $571,000 million for the comparable period in 2002, an increase of $3.5 million, or 607%. This increase was primarily the result of the inclusion of IES and MDT in our results in 2003.

During the first quarter of 2003, we recognized revenues from the sale of interactive use-of-force training systems (through our IES subsidiary), from providing armoring services under vehicle armoring contracts (through our MDT subsidiary), and from the sale of lifejacket lights, as well as under contracts with the U.S. Army's CECOM for deliveries of batteries and for design and procurement of production tooling and equipment. We also recognized revenues from subcontracting fees received in connection with Phase III of the United States Department of Transportation (DOT) program, which began October 2002. We participate in this program as a member of a consortium seeking to demonstrate the ability of the Electric Fuel battery system to power a full-size, all-electric transit bus. The total program cost of Phase III was $2 million, 50% of which was covered by the DOT subcontracting fees. Subcontracting fees cover less than all of the expenses and expenditures associated with our participation in the program. In 2002, we derived revenues principally from the sale of lifejacket lights, under contracts with the U.S. Army's CECOM for deliveries of batteries and for design and procurement of production tooling and equipment and from subcontracting fees received in connection with the DOT program. We also recognized revenues from subcontracting fees received in connection with Phase II of the United States Department of Transportation (DOT) program, which began in the fourth quarter of 2001 and was completed in July 2002.

In the first quarter of 2003, revenues were $3.2 million for the Defense and Security Products Division (compared to $0 in the first quarter of 2002, due to the inclusion of IES and MDT in our 2003 results, and $829,000 for the Electric Fuel Batteries Division (compared to $571,000 in the first quarter of 2002, an increase of $258,000, or 45%), due primarily to an increase in revenues from CECOM batteries sold to the U.S. Army. Of the $3.2 million increase in Defense and Security Products revenues, $2.0 million was attributable to the inclusion of IES in our results in the first quarter of 2003 and $1.2 million was attributable to the inclusion of MDT in our results in the first quarter of 2003.

COST OF REVENUES AND GROSS PROFIT. Cost of revenues totaled $2.6 million during the first quarter of 2003, compared to $384,000 in the first quarter of 2002, an increase of $2.3 million, or 587%, due to the inclusion of IES and MDT in our 2003 results.

Direct expenses for our two divisions during the first quarter of 2003 were $2.9 million for the Defense and Security Products Division (compared to $0 in the first quarter of 2002, due to the inclusion of IES and MDT in our 2003 results), and $1.0 million for the Electric Fuel Batteries Division (compared to $489,000 in the first quarter of 2002, an increase of $503,000, or 103%), due primarily to an increase in sales and activities related to CECOM batteries.

Of the $2.9 million increase in Defense and Security Products direct expenses, $1.7 million was attributable to the inclusion of IES in our results in the first quarter of 2003 and $1.2 million was attributable to the inclusion of MDT in our results in the first quarter of 2003.

Gross profit was $1.4 million during the first quarter of 2003, compared to $187,000 during the first quarter of 2002, an increase of $1.2 million, or 649%. This increase was the direct result of all factors presented above, most notably the inclusion of IES and MDT in our 2003 results. In the first quarter of 2003, IES contributed $970,000 to our gross profit, MDT contributed $358,000, and our other product lines contributed $71,000.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses for the first quarter of 2003 were $358,000, compared to $101,000 the first quarter of 2002, an increase of $258,000, or 256%. This increase was the result of the research and development activities that support the activities at our CECOM facility in Auburn, Alabama, which accounted for $173,000 of the increase, and the inclusion of IES and MDT, which accounted for $84,000 of the increase, in our 2003 results.

SALES AND MARKETING EXPENSES. Sales and marketing expenses for the first quarter of 2003 were $704,000, compared to $57,000 the first quarter of 2002, an increase of $647,000, or 1,136%. This increase was primarily attributable to the following factors:

- We had sales and marketing expenses in the first quarter of 2003 related to IES of $505,000, which we did not have the first quarter of 2002;

- We had sales and marketing expenses in the first quarter of 2003 related to MDT of $76,000, which we did not have the first quarter of 2002; and

- We incurred expenses for consultants in the amount of $55,000 in connection with our CECOM battery program with the U.S. Army.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the first quarter of 2003 were $1.0 million compared to $1.2 million the first quarter of 2002, a decrease of $236,000, or 19%. This decrease was primarily attributable to the write-down in 2002 of certain notes receivable from stockholders and to certain expenses in 2002 related to options granted to a financial consultant in the aggregate amount of $440,000, which were not repeated in 2003, which decrease was partially offset by the inclusion of the expenses of IES ($180,000) and MDT ($108,000) in our 2003 results.

FINANCIAL (EXPENSES) INCOME, NET. Financial (expenses) income, net of interest expenses and exchange differentials, totaled approximately $(261,000) in the first quarter of 2003 compared to $64,000 the first quarter of 2002, an increase of $325,000. This increase in financial expenses was due primarily to $88,000 in interest expense on our debentures during the first quarter of 2003, and amortization of compensation related to the issuance of our debentures and the warrants that we issued in connection with our debentures in the amount of $189,000, which expenses had no equivalent during the first quarter of 2002.

INCOME TAXES. We and certain of our subsidiaries incurred net operating losses during the first quarter of 2003 and 2001 and, accordingly, we were not required to make any provision for income taxes. MDT had taxable income, but we may use EFL's losses to offset MDT's income, and accordingly MDT has made no provision for income taxes.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets totaled $312,000 in the first quarter of 2003, compared to $0 the first quarter of 2002, due to amortization of intangibles assets related to our purchase of IES and MDT in 2002. Of this $312,000 increase, $263,000 was attributable to amortization of intangibles assets related to our purchase of IES and $49,000 was attributable to amortization of intangibles assets related to our purchase of MDT.

NET LOSS FROM CONTINUING OPERATIONS. Due to the factors cited above, we reported a net loss from continuing operations of $1.3 million in the first quarter of 2003, compared to a net loss of $1.2 million the first quarter of 2002, an increase of $136,000, or 12%.

NET LOSS FROM DISCONTINUED OPERATIONS. In the third quarter of 2002, we decided to discontinue operations relating to the retail sales of our consumer battery products. Accordingly, all revenues and expenses related to this segment have been presented in our consolidated statements of operations for the three months ended March 31, 2003 in an item entitled "Loss from discontinued operations."

Net loss from discontinued operations in the first quarter of 2003 was $96,000, compared to $2.2 million the first quarter of 2002, a decrease of $2.1 million, or 96%.

NET LOSS. Due to the factors cited above, we reported a net loss of $1.4 million in the first quarter of 2003, compared to a net loss of $3.3 million the first quarter of 2002, a decrease of $1.9 million, or 58%.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2003, we had cash and cash equivalents of approximately $1.9 million, compared to $12.8 million as of March 31, 2002, a decrease of $10.9 million. The decrease in cash was primarily the result of losses incurred in our consumer battery division, which we shut down in the third quarter of 2002, the costs of the acquisitions of IES and MDT, and working capital needed in our other segments.

We used available funds in the first three months of 2003 primarily for sales and marketing, continued research and development expenditures, and other working capital needs. We increased our investment in fixed assets by $139,000 (including fixed assets used in discontinued operations) during the quarter ended March 31, 2003, primarily in the Electric Fuel Batteries Division. Our fixed assets amounted to $2.4 million at quarter end.

Based on our internal forecasts, we believe that our present cash position and cash flows from operations will be sufficient to satisfy our estimated cash requirements through the next year. This belief is based on certain assumptions that our management believes to be reasonable, some of which are subject to the risk factors detailed below. We may seek additional funding, including through the issuance of equity or debt securities. However, there can be no assurance that we would be able to obtain any such additional funding, and if such additional funding could not be secured, we would have to further modify, reduce, defer or eliminate certain of our anticipated future commitments and/or programs, in order to continue future operations.

RISK FACTORS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Report and presented elsewhere by management from time to time.

BUSINESS-RELATED RISKS

WE HAVE HAD A HISTORY OF LOSSES AND MAY INCUR FUTURE LOSSES.

We were incorporated in 1990 and began our operations in 1991. We have funded our operations principally from funds raised in each of the initial public offering of our common stock in February 1994; through subsequent public and private offerings of our common stock and equity and debt securities convertible into shares of our common stock; research contracts and supply contracts; funds received under research and development grants from the Government of Israel; and sales of products that we and our subsidiaries manufacture. We incurred significant operating losses since our inception. Additionally, as of December 31, 2002, we had an accumulated deficit of approximately $100.7 million. There can be no assurance that we will ever achieve profitability or that our business will continue to exist. Additionally, because we do not presently meet the transaction requirements for filing registration statements for primary offerings of our securities on the simpler Form S-3 registration statement, raising capital through sales of our securities may be more difficult in the future than it has been in the past.

OUR EXISTING INDEBTEDNESS MAY ADVERSELY AFFECT OUR ABILITY TO OBTAIN ADDITIONAL FUNDS AND MAY INCREASE OUR VULNERABILITY TO ECONOMIC OR BUSINESS DOWNTURNS.

Our indebtedness, including the aggregate principal amount of the debentures sold by us in December 2002, aggregated approximately $5.3 million as of December 31, 2002. Accordingly, we are subject to the risks associated with indebtedness, including:

- we must dedicate a portion of our cash flows from operations to pay debt service costs and, as a result, we have less funds available for operations, future acquisitions of consumer receivable portfolios, and other purposes;

- it may be more difficult and expensive to obtain additional funds through financings, if available at all;

- we are more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and

- if we default under any of our existing debt instruments or if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

The occurrence of any of these events could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

The agreements governing the terms of our debentures contain numerous affirmative and negative covenants that limit the discretion of our management with respect to certain business

matters and place restrictions on us, including obligations on our part to preserve and maintain our assets and restrictions on our ability to incur or guarantee debt, to merge with or sell our assets to another company, and to make significant capital expenditures without the consent of the debenture holders. Our ability to comply with these and other provisions of such agreements may be affected by changes in economic or business conditions or other events beyond our control.

FAILURE TO COMPLY WITH THE TERMS OF OUR DEBENTURES COULD RESULT IN A DEFAULT THAT COULD HAVE MATERIAL ADVERSE CONSEQUENCES FOR US.

A failure to comply with the obligations contained in our debenture agreements, including a failure to have our registration statement registering the shares underlying our debentures and the warrants issued as part of the debenture financing declared effective by the SEC on or before January 1, 2004, could result in an event of default under such agreements which could result in an acceleration of the debentures and the acceleration of debt under other instruments evidencing indebtedness that may contain cross-acceleration or cross-default provisions. If the indebtedness under the debentures or other indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay in full such indebtedness. The foregoing description of our agreement with our debenture holders is qualified in its entirety by reference to the agreements with our debenture holders filed as exhibits to our Current Report on Form 8-K that we filed with the SEC on January 6, 2003.

WE HAVE PLEDGED A SUBSTANTIAL PORTION OF OUR ASSETS TO SECURE OUR BORROWINGS.

The debentures are secured by a substantial portion of our assets. If we default under the indebtedness secured by our assets, those assets would be available to the secured creditor to satisfy our obligations to the secured creditor, which could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

WE NEED SIGNIFICANT AMOUNTS OF CAPITAL TO OPERATE AND GROW OUR BUSINESS.

We require substantial funds to conduct the necessary research, development and testing of our products; to establish commercial scale manufacturing facilities; and to market our products. We continue to seek additional funding, including through the issuance of equity or debt securities.

However, there can be no assurance that we will obtain any such additional financing in a timely manner or on acceptable terms. If additional funds are raised by issuing equity securities, stockholders may incur further dilution. If additional funding is not secured, we will have to modify, reduce, defer or eliminate parts of our anticipated future commitments and/or programs.

WE MAY NOT BE SUCCESSFUL IN OPERATING A NEW BUSINESS.

Prior to the IES and MDT acquisitions, our primary business was the marketing and sale of products based on primary and refuelable Zinc-Air fuel cell technology and advancements in battery technology for defense and security products and other military applications, electric vehicles and consumer electronics. As a result of the IES and MDT acquisitions, a substantial component of our business will be the marketing and sale of hi-tech multimedia and interactive digital solutions for training military, law enforcement and security personnel and sophisticated lightweight materials and advanced engineering processes used to armor vehicles. These are new businesses for us and our management group has limited experience operating these types of

businesses. Although we have retained the management personnel at IES and MDT, we cannot assure that such personnel will continue to work for us or that we will be successful in managing this new business. If we are unable to successfully operate these new businesses, especially the business of IES, our business, financial condition and results of operations could be materially impaired.

WE CANNOT ASSURE YOU OF MARKET ACCEPTANCE OF OUR MILITARY ZINC-AIR BATTERY PRODUCTS AND ELECTRIC VEHICLE TECHNOLOGY.

Our batteries for the defense industry and a signal light powered by water-activated batteries for use in life jackets and other rescue apparatus are the only commercial Zinc-Air battery products we currently have available for sale. Significant resources will be required to develop and produce additional consumer products utilizing this technology on a commercial scale. Additional development will be necessary in order to commercialize our technology and each of the components of the Electric Fuel System for electric vehicles and defense products. We cannot assure you that we will be able to successfully develop, engineer or commercialize our Zinc-Air energy system, or that we will be able to develop products for commercial sale or that, if developed, they can be produced in commercial quantities or at acceptable costs or be successfully marketed. The likelihood of our future success must be considered in light of the risks, expenses, difficulties and delays frequently encountered in connection with the operation and development of a relatively early stage business and with development activities generally.

We believe that public pressure and government initiatives are important factors in creating an electric vehicle market. However, there can be no assurance that there will be sufficient public pressure or that further legislation or other governmental initiatives will be enacted, or that current legislation will not be repealed, amended, or have its implementation delayed. In addition, we are subject to the risk that even if an electric fuel vehicle market develops, a different form of zero emission or low emission vehicle will dominate the market. In addition, we cannot assure you that other solutions to the problem of containing emissions created by internal combustion engines will not be invented, developed and produced. Any other solution could achieve greater market acceptance than electric vehicles. The failure of a significant market for electric vehicles to develop would have a material adverse effect on our ability to commercialize this aspect of our technology. Even if a significant market for electric vehicles develops, there can be no assurance that our technology will be commercially competitive within that market.

OUR ACQUISITION STRATEGY INVOLVES VARIOUS RISKS.

Part of our strategy is to grow through the acquisition of companies that will complement our existing operations or provide us with an entry into markets we do not currently serve. Growth through acquisitions involves substantial risks, including the risk of improper valuation of the acquired business and the risk of inadequate integration. There can be no assurance that suitable acquisition candidates will be available, that we will be able to acquire or manage profitably such additional companies or that future acquisitions will produce returns that justify our investments therein. In addition, we may compete for acquisition and expansion opportunities with companies that have significantly greater resources than we do. Furthermore, acquisitions could disrupt our ongoing business, distract the attention of our senior managers, make it difficult to maintain our operational standards, controls and procedures and subject us to contingent and latent risks that are different, in nature and magnitude, than the risks we currently face.

We may finance future acquisitions with cash from operations or additional debt or equity financings. There can be no assurance that we will be able to generate internal cash or obtain financing from external sources or that, if available, such financing will be on terms acceptable to us. The issuance of additional common stock to finance acquisitions may result in substantial dilution to our stockholders. Any debt financing may significantly increase our leverage and may involve restrictive covenants which limit our operations.

WE MAY NOT SUCCESSFULLY INTEGRATE OUR NEW ACQUISITIONS.

In light of our recent acquisitions of IES and MDT, our success will depend in part on our ability to manage the combined operations of these companies and to integrate the operations and personnel of these companies along with our other subsidiaries and divisions into a single organizational structure. There can be no assurance that we will be able to effectively integrate the operations of our subsidiaries and divisions and our newly-acquired businesses into a single organizational structure. Integration of these operations could also place additional pressures on our management as well as on our key technical resources. The failure to successfully manage this integration could have an adverse material effect on us.

If we are successful in acquiring additional businesses, we may experience a period of rapid growth that could place significant additional demands on, and require us to expand, our management, resources and management information systems. Our failure to manage any such rapid growth effectively could have a material adverse effect on our financial condition, results of operations and cash flows.

IF WE ARE UNABLE TO MANAGE OUR GROWTH, OUR OPERATING RESULTS WILL BE IMPAIRED.

We are currently experiencing a period of growth and development activity which could place a significant strain on our personnel and resources. Our activity has resulted in increased levels of responsibility for both existing and new management personnel. Many of our management personnel have had limited or no experience in managing growing companies. We have sought to manage our current and anticipated growth through the recruitment of additional management and technical personnel and the implementation of internal systems and controls. However, our failure to manage growth effectively could adversely affect our results of operations.

WE WILL NEED TO DEVELOP THE EXPERIENCE TO MANUFACTURE CERTAIN OF OUR PRODUCTS IN COMMERCIAL QUANTITIES AND AT COMPETITIVE PRICES.

We currently have limited experience in manufacturing in commercial quantities and have, to date, produced only limited quantities of military batteries and components of the batteries for electric vehicles. In order for us to be successful in the commercial market, these products must be manufactured to meet high quality standards in commercial quantities at competitive prices. The development of the necessary manufacturing technology and processes will require extensive lead times and the commitment of significant amounts of financial and engineering resources, which may not be available to us. We cannot assure you that we will successfully de-

velop this technology or these processes. Moreover, we cannot assure you that we will be able to successfully implement the quality control measures necessary for commercial manufacturing.

SOME OF THE COMPONENTS OF OUR TECHNOLOGY AND OUR PRODUCTS POSE POTENTIAL SAFETY RISKS WHICH COULD CREATE POTENTIAL LIABILITY EXPOSURE FOR US.

Some of the components of our technology and our products contain elements that are known to pose potential safety risks. Also, because electric vehicle batteries contain large amounts of electrical energy, they may cause injuries if not handled properly. In addition to these risks, and although we incorporate safety procedures in our research, development and manufacturing processes, there can be no assurance that accidents in our facilities will not occur. Any accident, whether occasioned by the use of all or any part of our products or technology or by our manufacturing operations, could adversely affect commercial acceptance of our products and could result in significant production delays or claims for damages resulting from injuries. Any of these occurrences would materially adversely affect our operations and financial condition.

WE MAY FACE PRODUCT LIABILITY CLAIMS.

To date, there have been no material claims or threatened claims against us by users of our products, including the products manufactured by MDT, based on a failure of our products to perform as specified. In the event that any claims for substantial amounts were to be asserted against us, they could have a materially adverse effect on our financial condition and results of operations. We maintain general product liability insurance. However, there is no assurance that the amount of our insurance will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

SOME OF OUR BUSINESS IS DEPENDENT ON GOVERNMENT CONTRACTS.

Most of IES's customers to date have been in the public sector of the U.S., including the federal, state and local governments, and in the public sectors of a number of other countries, and most of MDT's customers have been in the public sector in Israel. A significant decrease in the overall level or allocation of defense spending or law enforcement in the U.S. or other countries could have a material adverse effect on our future results of operations and financial condition.

Sales to public sector customers are subject to a multiplicity of detailed regulatory requirements and public policies as well as to changes in training and purchasing priorities. Contracts with public sector customers may be conditioned upon the continuing availability of public funds, which in turn depends upon lengthy and complex budgetary procedures, and may be subject to certain pricing constraints. Moreover, U.S. government contracts and those of many international government customers may generally be terminated for a variety of factors when it is in the best interests of the government and contractors may be suspended or debarred for misconduct at the discretion of the government. There can be no assurance that these factors or others unique to government contracts or the loss or suspension of necessary regulatory licenses will not have a material adverse effect on our future results of operations and financial condition.

OUR FIELDS OF BUSINESS ARE HIGHLY COMPETITIVE.

The competition to develop defense and security products and electric vehicle battery systems, and to obtain funding for the development of these products, is, and is expected to remain, intense.

Our defense and security products compete with other manufacturers of specialized training systems, including Firearms Training Systems, Inc., a producer of interactive simulation systems designed to provide training in the handling and use of small and supporting arms. In addition, we compete with manufacturers and developers of armor for cars and vans, including O'Gara-Hess & Eisenhardt, a division of Armor Holdings, Inc.

Our battery technology competes with other battery technologies, as well as other Zinc-Air technologies. The competition in this area of our business consists of development stage companies, major international companies and consortia of such companies, including battery manufacturers, automobile manufacturers, energy production and transportation companies, consumer goods companies and defense contractors. Many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours.

Various battery technologies are being considered for use in electric vehicles and defense and safety products by other manufacturers and developers, including the following: lead-acid, nickel-cadmium, nickel-iron, nickel-zinc, nickel-metal hydride, sodium-sulfur, sodium-nickel chloride, zinc-bromine, lithium-ion, lithium-polymer, lithium-iron sulfide, primary lithium, rechargeable alkaline and Zinc-Air.

If we are unable to compete successfully in each of our operating areas, especially in the defense and security products area of our business, our business and results of operations could be materially adversely affected.

FAILURE TO RECEIVE REQUIRED REGULATORY PERMITS OR TO COMPLY WITH VARIOUS REGULATIONS TO WHICH WE ARE SUBJECT COULD ADVERSELY AFFECT OUR BUSINESS.

Regulations in Europe, Israel, the United States and other countries impose various controls and requirements relating to various components of our business. While we believe that our current and contemplated operations conform to those regulations, we cannot assure you that we will not be found to be in non-compliance. We have applied for, and received, the necessary permits under the Israel Dangerous Substances Law, 5753-1993, required for the use of potassium hydroxide and zinc metal. However, there can be no assurance that changes in these regulations or the adoption of new regulations will not impose costly compliance requirements on us, subject us to future liabilities, or restrict our ability to operate our business.

OUR BUSINESS IS DEPENDENT ON PATENTS AND OTHER PROPRIETARY RIGHTS THAT MAY BE DIFFICULT TO PROTECT AND COULD AFFECT OUR ABILITY TO COMPETE EFFECTIVELY.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements. We hold patents, or

patent applications, covering elements of our technology in the United States and in Europe. In addition, we have patent applications pending in the United States and in foreign countries, including the European Community, Israel and Japan. We intend to continue to file patent applications covering important features of our technology. We cannot assure you, however, that patents will issue from any of these pending applications or, if patents issue, that the claims allowed will be sufficiently broad to protect our technology. In addition, we cannot assure you that any of our patents will not be challenged or invalidated, that any of our issued patents will afford protection against a competitor or that third parties will not make infringement claims against us.

Litigation, or participation in administrative proceedings, may be necessary to protect our proprietary rights. This type of litigation can be costly and time consuming and could divert company resources and management attention to defend our rights, and this could harm us even if we were to be successful in the litigation. The invalidation of patents owned by or licensed to us could have a material adverse effect on our business. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States. Therefore, there can be no assurance that foreign patent applications related to patents issued in the United States will be granted. Furthermore, even if these patent applications are granted, some foreign countries provide significantly less patent protection than the United States. In the absence of patent protection, and despite our reliance upon our proprietary confidential information, our competitors may be able to use innovations similar to those used by us to design and manufacture products directly competitive with our products. In addition, no assurance can be given that others will not obtain patents that we will need to license or design around. To the extent any of our products are covered by third-party patents, we could require a license under such patents to develop and market our patents.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. Moreover, in the event of patent litigation, we cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design around such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through non-disclosure and confidentiality agreements with our customers, employees, consultants, strategic partners and potential strategic partners. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

WE HAVE UNDERGONE RECENT MANAGEMENT CHANGES.

In October 2002, Yehuda Harats, who had been our CEO since the inception of our company, resigned from his positions with us in order to pursue other interests. Our Board of Directors selected our long-time Chairman of the Board, Robert S. Ehrlich, to be our new President and CEO. Our success will depend to some extent on our ability to quickly and smoothly execute the change in leadership as a result of this change of CEO.

WE ARE DEPENDENT ON KEY PERSONNEL AND OUR BUSINESS WOULD SUFFER IF WE FAIL TO RETAIN THEM.

We are highly dependent on certain members of our management and engineering staff, and the loss of the services of one or more of these persons could adversely affect us. We are especially dependent on the services of our Chairman, President and Chief Executive Officer, Robert S. Ehrlich. The loss of Mr. Ehrlich could have a material adverse effect on us. We are party to an employment agreement with Mr. Ehrlich, which agreement expires at the end of 2003. We do not have key-man life insurance on Mr. Ehrlich.

THERE ARE RISKS INVOLVED WITH THE INTERNATIONAL NATURE OF OUR BUSINESS.

A significant portion of our sales are made to customers located outside the U.S., primarily in Europe and Asia. In 2000, 2001 and 2002, without taking account of revenues derived from discontinued operations, 45%, 49%, and 56%, respectively, of our revenues, including the revenues of IES and MDT on a pro forma basis, were derived from sales to customers located outside the U.S. We expect that our international customers will continue to account for a substantial portion of our revenues in the near future. Sales to international customers may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, foreign taxes, longer payment cycles and changes in import/export regulations and tariff rates. In addition, various forms of protectionist trade legislation have been and in the future may be proposed in the U.S. and certain other countries. Any resulting changes in current tariff structures or other trade and monetary policies could adversely affect our sales to international customers.

WE MAY BE SUBJECT TO INCREASED UNITED STATES TAXATION.

We believe that Electric Fuel and our wholly-owned Israeli subsidiary EFL will be treated as personal holding companies for purposes of the personal holding company (PHC) rules of the Internal Revenue Code of 1986. Under the PHC rules, a PHC is subject to a special 39.6% tax on its "undistributed PHC income", in addition to regular income tax. We believe that Electric Fuel and EFL have not had any material undistributed PHC income. However, no assurance can be given that Electric Fuel and EFL will not have undistributed PHC income in the future.

Approximately 22.9% of the stock of EFL was deemed to be beneficially owned (directly or indirectly by application of certain attribution rules) as of December 31, 2002 by four United States citizens: Leon S. Gross, Austin W. Marxe and David M. Greenhouse, and Robert S. Ehrlich (see "Item 12. Security Ownership of Certain Beneficial Owners and Management") (information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003). If more than 50% of either (i) the voting power of our stock, or (ii) the to-

tal value of our stock, is ever acquired or deemed to be acquired by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 22.9% of our shares) who are United States citizens or residents, EFL would satisfy the foreign personal holding company (FPHC) stock ownership test under the Internal Revenue Code, and we could be subject to additional U.S. taxes (including PHC tax) on any "undistributed FPHC income" of EFL. We believe that EFL has not had any material undistributed FPHC income. However, no assurance can be given that EFL will not become a FPHC and have undistributed FPHC income in the future.

INVESTORS SHOULD NOT PURCHASE OUR COMMON STOCK WITH THE EXPECTATION OF RECEIVING CASH DIVIDENDS.

We currently intend to retain any future earnings for funding growth and, as a result, do not expect to pay any cash dividends in the foreseeable future.

MARKET-RELATED RISKS

THE PRICE OF OUR COMMON STOCK IS VOLATILE.

The market price of our common stock has been volatile in the past and may change rapidly in the future. The following factors, among others, may cause significant volatility in our stock price:

- Announcements by us, our competitors or our customers;
- The introduction of new or enhanced products and services by us or our competitors;
- Changes in the perceived ability to commercialize our technology compared to that of our competitors;
- Rumors relating to our competitors or us;

- o Actual or anticipated fluctuations in our operating results; and

- o General market or economic conditions.

IF OUR SHARES WERE TO BE DELISTED, OUR STOCK PRICE MIGHT DECLINE FURTHER AND WE MIGHT BE UNABLE TO RAISE ADDITIONAL CAPITAL.

One of the continued listing standards for our stock on the Nasdaq National Market is the maintenance of a $1.00 bid price. Our stock price has generally been trading below $1.00 since October 18, 2002. On December 6, 2002, Nasdaq notified us of our failure to meet the continued listing standards, and informed us that unless our stock closes for ten consecutive trading days with a bid price in excess of $1.00 prior to March 6, 2003 (subsequently extended, as a result of an amendment to Nasdaq's listing regulations, to June 4, 2003), Nasdaq would notify us of its intent to delist our stock from the Nasdaq National Market. Should Nasdaq notify us of its intent to delist our stock, we would have the opportunity to appeal this notification, although there can be no assurances that this appeal would be resolved favorably.

There can be no assurance that our common stock will remain listed on the Nasdaq National Market. If our common stock were to be delisted from the Nasdaq National Market, we

might apply to be listed on the Nasdaq SmallCap market; however, there can be no assurance that we would be approved for listing on the Nasdaq SmallCap market, which has the same $1.00 minimum bid and other similar requirements as the Nasdaq National Market. If we were to move to the Nasdaq SmallCap market, current Nasdaq regulations would give us the opportunity to obtain an additional 180-day grace period and an additional 90-day grace period after that if we meet certain net income, shareholders' equity or market capitalization criteria. While our stock would continue to trade on the over-the-counter bulletin board following any delisting from the Nasdaq, any such delisting of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock. Also, if in the future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public equity markets.

In addition, if we fail to maintain Nasdaq listing for our securities, and no other exclusion from the definition of a "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our securities would be required to provide any customer with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market values of our securities held in the customer's account. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation. If brokers become subject to the "penny stock" rules when engaging in transactions in our securities, they would become less willing to engage in transactions, thereby making it more difficult for our stockholders to dispose of their shares.

WE ARE SUBJECT TO SIGNIFICANT INFLUENCE BY SOME STOCKHOLDERS THAT MAY HAVE THE EFFECT OF DELAYING OR PREVENTING A CHANGE IN CONTROL.

As of February 28, 2003, our directors, executive officers and principal stockholders and their affiliates (including Leon S. Gross (11.6%), Austin W. Marxe and David M. Greenhouse (8.0%), IES Electronics Industries Ltd. (6.2%) and Robert S. Ehrlich (4.3%)) collectively are deemed beneficially to own approximately 29.0% of the outstanding shares of our common stock (see "Item 12. Security Ownership of Certain Beneficial Owners and Management"), including options and warrants exercisable within 60 days of February 28, 2003 (information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003, and information with respect to the stockholdings of IES Electronics Industries Ltd. is based on a Schedule 13D filed with the Securities and Exchange Commission on August 12, 2002, as amended on October 28, 2002 and January 9, 2003). As a result, these stockholders are able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying, preventing or discouraging a change in control of Electric Fuel.

Pursuant to a voting rights agreement dated September 30, 1996, as amended, between Leon S. Gross, Robert S. Ehrlich, Yehuda Harats and us, Lawrence M. Miller, Mr. Gross's advisor, is entitled to be nominated to serve on our board of directors so long as Mr. Gross, his heirs or assigns retain beneficial ownership of at least 1,375,000 shares of common stock. In addition, under the voting rights agreement, Mr. Gross and Messrs. Ehrlich and Harats agreed to vote and take all necessary action so that Messrs. Ehrlich, Harats and Miller shall serve as members of the board of directors until the earlier of December 28, 2004 or our fifth annual meeting of stockholders after December 28, 1999. Mr. Harats resigned as a director in 2002; however, we believe that Mr. Harats must continue to comply with the terms of this agreement.

A SUBSTANTIAL NUMBER OF OUR SHARES ARE AVAILABLE FOR SALE IN THE PUBLIC MARKET AND SALES OF THOSE SHARES COULD ADVERSELY AFFECT OUR STOCK PRICE.

Sales of a substantial number of shares of common stock into the public market, or the perception that those sales could occur, could adversely affect our stock price or could impair our ability to obtain capital through an offering of equity securities. As of February 28, 2003, we had 35,146,261 shares of common stock issued and outstanding. Of these shares, 27,610,658 are freely transferable without restriction under the Securities Act of 1933 and 7,526,478 may be sold subject to the volume restrictions, manner-of-sale provisions and other conditions of Rule 144 under the Securities Act of 1933.

In connection with a stock purchase agreement dated September 30, 1996 between Leon S. Gross and us, we also entered into a registration rights agreement with Mr. Gross dated September 30, 1996, setting forth registration rights with respect to the shares of common stock issued to Mr. Gross in connection with the offering. These rights include the right to make two demands for the registration of the shares of our common stock owned by Mr. Gross. In addition, Mr. Gross was granted unlimited rights to "piggyback" on registration statements that we file for the sale of our common stock. Mr. Gross presently owns 3,547,870 shares, of which 1,538,462 have never been registered.

In addition, pursuant to the terms of their employment agreements with us, both Yehuda Harats and Robert S. Ehrlich have a right to demand registration of their shares. Of the shares owned by Mr. Harats, 435,404 shares have never been registered, and of the 688,166 shares owned by Mr. Ehrlich, 453,933 shares have never been registered.

EXERCISE OF OUR WARRANTS, OPTIONS AND CONVERTIBLE DEBT COULD ADVERSELY AFFECT OUR STOCK PRICE AND WILL BE DILUTIVE.

As of February 28, 2003, there were outstanding warrants to purchase a total of 9,421,238 shares of our common stock at a weighted average exercise price of $1.87 per share, options to purchase a total of 5,715,955 shares of our common stock at a weighted average exercise price of $2.16 per share, of which 5,131,032 were vested and exercisable within 60 days of such date, at a weighted average exercise price of $2.15 per share, and outstanding debentures and promissory notes convertible into a total of 6,032,721 shares of our common stock at a weighted average conversion price of $0.65 per share. Holders of our options, warrants and convertible debt will probably exercise or convert them only at a time when the price of our common stock is higher than their respective exercise or conversion prices. Accordingly, we may be required to issue shares of our common stock at a price substantially lower than the market price of our stock. This could adversely affect our stock price. In addition, if and when these shares are issued, the percentage of our common stock that existing stockholders own will be diluted.

OUR CERTIFICATE OF INCORPORATION AND BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE A TAKEOVER.

Provisions of our amended and restated certificate of incorporation may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions:

- divide our board of directors into three classes serving staggered three-year terms;

- only permit removal of directors by stockholders "for cause," and require the affirmative vote of at least 85% of the outstanding common stock to so remove; and

- allow us to issue preferred stock without any vote or further action by the stockholders.

The classification system of electing directors and the removal provision may tend to discourage a third-party from making a tender offer or otherwise attempting to obtain control of us and may maintain the incumbency of our board of directors, as the classification of the board of directors increases the difficulty of replacing a majority of the directors. These provisions may have the effect of deferring hostile takeovers, delaying changes in our control or management, or may make it more difficult for stockholders to take certain corporate actions. The amendment of any of these provisions would require approval by holders of at least 85% of the outstanding common stock.

ISRAEL-RELATED RISKS

A SIGNIFICANT PORTION OF OUR OPERATIONS TAKES PLACE IN ISRAEL, AND WE COULD BE ADVERSELY AFFECTED BY THE ECONOMIC, POLITICAL AND MILITARY CONDITIONS IN THAT REGION.

The offices and facilities of two of our principal subsidiaries, EFL and MDT, are located in Israel (in Beit Shemesh and Lod, respectively, both of which are within Israel's pre-1967 borders). We conduct research and development activities through EFL, and most of our senior management is located at EFL's facilities. Although we expect that most of our sales will be made to customers outside Israel, we are nonetheless directly affected by economic, political and military conditions in that country. Accordingly, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel.

Historically, Arab states have boycotted any direct trade with Israel and to varying degrees have imposed a secondary boycott on any company carrying on trade with or doing business in Israel. Although in October 1994, the states comprising the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Dubai, Bahrain and Oman) announced that they would no longer adhere to the secondary boycott against Israel, and Israel has entered into certain agreements with Egypt, Jordan, the Palestine Liberation Organization and the Palestinian Authority, Israel has not entered into any peace arrangement with Syria or Lebanon. Moreover, since September 2000, there has been a significant deterioration in Israel's relationship with the

Palestinian Authority, and a significant increase in terror and violence. Efforts to resolve the problem have failed to result in an agreeable solution. Continued hostilities between the Palestinian community and Israel and any failure to settle the conflict may have a material adverse effect on our business and us. Moreover, the current political and security situation in the region has already had an adverse effect on the economy of Israel, which in turn may have an adverse effect on us.

Many of our employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. No assessment can be made of the full impact of such requirements on us in the future, particularly if emergency circumstances occur, and no prediction can be made as to the effect on us of any expansion of these obligations. However, further deterioration of hostilities with the Palestinian community into a full-scale conflict might require more widespread military reserve service by some of our employees, which could have a material adverse effect on our business.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES ON US AND OUR OFFICERS MAY BE DIFFICULT TO OBTAIN.

We are organized under the laws of the State of Delaware and will be subject to service of process in the United States. However, approximately 49% of our assets are located outside the United States. In addition, two of our directors and all of our executive officers are residents of Israel and all or a substantial portion of the assets of such directors and executive officers are located outside the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of the Securities Act and the Exchange Act. As a result, it may not be possible for investors to enforce or effect service of process upon these directors and executive officers or to judgments of U.S. courts predicated upon the civil liability provisions of U.S. laws against our assets, as well as the assets of these directors and executive officers. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in Israel.

ANY FAILURE TO OBTAIN THE TAX BENEFITS FROM THE STATE OF ISRAEL THAT WE EXPECT TO RECEIVE COULD NEGATIVELY IMPACT OUR PLANS AND PROSPECTS.

We benefit from various Israeli government programs, grants and tax benefits, particularly as a result of the "approved enterprise" status of a substantial portion of our existing facilities and the receipt of grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade. To be eligible for some of these programs, grants and tax benefits, we must continue to meet certain conditions, including producing in Israel and making specified investments in fixed assets. If we fail to meet such conditions in the future, we could be required to refund grants already received, adjusted for inflation and interest. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under approved enterprise programs. We cannot assure you that these programs and tax benefits will be contin-

ued in the future at their current levels or at all. The Government of Israel has announced that programs receiving approved enterprise status in 1996 and thereafter will be entitled to a lower level of government grants than was previously available. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the approved enterprise status of a substantial portion of our existing facilities and approved programs and as a recipient of grants from the office of the Chief Scientist) could have a material adverse effect on our business, results of operations and financial condition. In addition, EFL has granted a floating lien (that is, a lien that applies not only to assets owned at the time but also to after-acquired assets) over all of EFL's assets as a security to the State of Israel to secure its obligations under the approved enterprise programs.

OUR GRANTS FROM THE ISRAELI GOVERNMENT IMPOSE CERTAIN RESTRICTIONS ON US.

Since 1992, our Israeli subsidiary, EFL, has received funding from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade relating to the development of our Zinc-Air battery products, such as our electric vehicle and our batteries and chargers for consumer products. Between 1998 and 2000, we have also received funds from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation. Through the end of 2002, we have received an aggregate of $9.9 million from grants from the Chief Scientist and $772,000 from grants from BIRD, and we may receive future grants, the amounts of which would be determined at the time of application. The funding from the Chief Scientist prohibits the transfer or license of know-how and the manufacture of resulting products outside of Israel without the permission of the Chief Scientist. Although we believe that the Chief Scientist does not unreasonably withhold this permission if the request is based upon commercially justified circumstances and any royalty obligations to the Chief Scientist are sufficiently assured, the matter is solely within the discretion of the Chief Scientist, and we cannot be sure that such consent, if requested, would be granted upon terms satisfactory to us or granted at all. Without such consent, we would be unable to manufacture any products developed by this research outside of Israel, even if it would be less expensive for us to do so. Additionally, current regulations require that, in the case of the approved transfer of manufacturing rights out of Israel, the maximum amount to be repaid through royalty payments would be increased to between 120% and 300% of the amount granted, depending on the extent of the manufacturing to be conducted outside of Israel, and that an increased royalty rate of up to 5% would be applied. These restrictions could adversely affect our potential revenues and net income from the sale of such products.

EXCHANGE RATE FLUCTUATIONS BETWEEN THE U.S. DOLLAR AND THE ISRAELI NIS MAY NEGATIVELY AFFECT OUR EARNINGS.

Although a substantial majority of our revenues and a substantial portion of our expenses are denominated in U.S. dollars, a significant portion of our costs, including personnel and facilities-related expenses, is incurred in New Israeli Shekels (NIS). Inflation in Israel will have the effect of increasing the dollar cost of our operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the dollar.

SOME OF OUR AGREEMENTS ARE GOVERNED BY ISRAELI LAW.

Israeli law governs both our agreement with IES and our agreement with MDT, as well as certain other agreements, such as our lease agreements on our subsidiaries' premises in Israel.

While Israeli law differs in certain respects from American law, we do not believe that these differences materially adversely affect our rights or remedies under these agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to the impact of interest rate changes and foreign currency fluctuations due to our international sales, production and funding requirements.

Certain of our activities are carried out by our wholly-owned subsidiaries EFL and MDT, at their facilities in Israel, and we market some of our products in Israel; accordingly we have sales and expenses in New Israeli Shekels. However, the majority of our sales are made outside Israel in U.S. dollars, and a substantial portion of our costs are incurred in U.S. dollars or in New Israeli Shekels linked to the U.S. dollar. Therefore, our functional currency is the U.S. dollar.

PART II

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(b) The following reports on Form 8-K were filed during the first quarter of 2003:

<TABLE>
<CAPTION>

DATE FILED	ITEM REPORTED
<S>	<C>
January 6, 2003..........	Sale of $3,500,000 principal amount 9% Secured Convertible Debentures due June 30, 2005 and certain other related transactions, and settlement with former CEO

</TABLE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRIC FUEL CORPORATION

By: /s/ Robert S. Ehrlich

Name: Robert S. Ehrlich
Title: Chairman, President and CEO

/s/ Avihai Shen

Name: Avihai Shen
Title: Vice President - Finance
(Principal Financial Officer)

Dated: May 14, 2003

CERTIFICATIONS

I, Robert S. Ehrlich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Electric Fuel Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Robert S. Ehrlich

Robert S. Ehrlich, Chairman, President and CEO
(Principal Executive Officer)

ELECTRIC FUEL CORPORATION
CERTIFICATIONS

I, Avihai Shen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Electric Fuel Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Avihai Shen

Avihai Shen, Vice President - Finance
(Principal Financial Officer)

ELECTRIC FUEL CORPORATION

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
99.1	Written Statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Written Statement of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

</TABLE>

ELECTRIC FUEL CORPORATION

EXHIBIT 99.1

WRITTEN STATEMENT

In connection with the Quarterly Report of Electric Fuel Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2003 filed with the Securities and Exchange Commission (the "Report"), I, Robert S. Ehrlich, Chairman, President and Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Electric Fuel Corporation and will be retained by Electric Fuel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

By: /s/ Robert S. Ehrlich

Robert S. Ehrlich, Chairman, President and CEO
(Chief Executive Officer)

Date: May 14, 2003

ELECTRIC FUEL CORPORATION

EXHIBIT 99.2

WRITTEN STATEMENT

In connection with the Quarterly Report of Electric Fuel Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2003 filed with the Securities and Exchange Commission (the "Report"), I, Avihai Shen, Vice President - Finance and Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that t To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Electric Fuel Corporation and will be retained by Electric Fuel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

By: /s/ Avihai Shen

Avihai Shen, Vice President - Finance
(Chief Financial Officer)

Date: May 14, 2003